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SUBJECT: MALI APPROVES A CONTENTIOUS 2010 BUDGET

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¶1. Summary: Mali's National Assembly approved the 2010 budget, also known as the finance law, on December 18. The law passed by a wide margin in spite of concern in the preceding weeks from opposition political parties about the irregular way the GOM was accounting for revenue from privatized parastatal companies. The 2010 budget is ten percent larger than the 2009 budget, reflecting, in part, a projected increase in revenue from better tax collection. A visiting mission from the International Monetary Fund signaled approval of the budget with some caveats. End summary.

¶2. The Malian government projects revenues in 2010 will increase by 9.6 percent over 2009 to CFA 1,101.603 billion (USD 2.45 billion). This is due largely to expected improvements in tax and customs collection, including the creation and maintenance of computerized tax and customs databases as well as the creation of a new office for medium-sized enterprises. In addition to increased fiscal revenue, the privatization of the parastatal telecommunications company SOTELMA in 2009 and continued funding commitments from international donors will provide a boost to the public coffers. Commitments from donors giving direct budget support to the GOM are expected to total CFA 354.73 billion (USD 771 million), comprising 33 percent of the budget.

¶3. According to the IMF Resident Representative in Mali, the increase in revenue forecast by the GOM is reasonable when taking into account that GDP growth in 2010 was forecast at 4.3 percent and inflation at 2.5 percent. The representative noted, however, that there are some risks to these projections. The increase in revenue will depend, in part, on the GOM following through on some politically contentious commitments. This includes a reduction in government subsidies for petroleum products, which reached a peak in 2008 in an attempt to reduce the burden of rising food and fuel costs for Malian consumers. The second commitment was a planned reduction in the corporate income tax. Rather than reduce the tax from 35 percent to 25 percent, as the GOM intended, the IMF suggested the reduction initially be limited to 5 percent, making the corporate tax rate 30 percent.

¶4. The GOM's funding allocations reflect the objectives of the country's Poverty Reduction and Growth Strategy (PRGS), translated by the GOM into the Social and Economic Development Program (known by its French acronym, PDES). The PDES is comprised of six axes: improving public services; increasing agricultural production and food security; supporting the private sector; bringing unemployed youth and women into the formal sector; social sector development; and societal reform. Expenditures, which include budget support from Mali's international donors and a portion of the revenue from the sale of SOTELMA, are expected to increase by 5.6 percent from last year to CFA 1,196.1 billion (USD 2.6 billion).

¶5. In what many Malian parliamentarians and international donors consider an unorthodox move, in 2010, the GOM will use only CFA 25 billion (USD 55.6 million) of the CFA 180 billion (USD 400 million) it received from the 2009 sale of SOTELMA (reftel). Although the sale was completed in 2009, the GOM will account for the revenue in

piecemeal fashion. The funds not used in 2010 will be held in a bank account at the Mali branch of the Central Bank of West Africa (BCEAO) to be used in 2011 and 2012. In the 2010 budget, one-fourth of the CFA 25 billion is earmarked for infrastructure, agriculture, and the social sectors; one-fourth for counterpart funds to co-finance public investment with donors; one-fourth for paying down domestic debt; and the balance for housing construction, decentralization, and support to small enterprises. In order to ensure transparency, the Malian government plans to budget the future use of the remaining SOTELMA revenue. What is worrisome to both Malian opposition political parties as well as to some in the international donor community, however, is that the GOM has reserved the majority of the funds from Mali's largest privatization for use in the run-up of the 2012 presidential election. In addition to worries about the manipulation of the revenue for political ends, the money is not being used to finance a one-off project to stimulate economic development as called for by bilateral and multilateral donors. Rather, it will be sprinkled over 15 different program areas that are currently ongoing, rendering the results of this investment difficult to measure.

¶6. Mali's 2010 budget falls short of some macroeconomic targets agreed upon under the PRGF. The GOM's target basic deficit for 2010 is 1.5 percent. As currently accounted, however, this figure does not reflect some of the GOM's policy commitments, such as subsidies for agricultural inputs, costs of privatizing the parastatal cotton company, CMDT, and a potential investment aimed at revitalizing the cotton sector. On their own, these commitments may reach 1 percent of GDP, bringing the 2010 basic deficit to 2.5 percent. Mali's IMF country representative noted that this was significantly higher than the 0.6 percent recommended by the IMF in its July Board meeting. Because the additional policy commitments are not yet well-defined,

they will be addressed in a supplementary budget law later this year. In its letter of intent for the third review under the PRGF, the GOM committed to passing the supplementary budget before the fourth review. At that point, the GOM may use more than the projected CFA 25 billion from the SOTELMA sale in order to maintain the basic deficit at the targeted level. Note: Absent external grants (e.g. direct budget support), concessional loans, and the use of SOTELMA privatization receipts, the overall budget deficit is projected to be 39 percent in 2010. End note.

¶7. In the most recent debt sustainability analysis for Mali, completed in 2008, the IMF determined Mali was at low risk of debt distress. The interest on the public deficit is budgeted as a current expenditure in the budget. The GOM will limit borrowing from the domestic banking system and the regional financial market to 1 percent of GDP in order to ensure debt sustainability in line with the debt sustainability analysis undertaken by the IMF.

¶8. The generally optimistic macroeconomic forecast notwithstanding, the health of Mali's economy remains tenuous. Debt sustainability relies on optimistic assumptions about continued gold production over the medium term. A favorable balance of payments depends on continued high world gold prices as well as stable production. In addition, Mali remains highly vulnerable to fluctuations in commodities markets as evidenced in 2008 with the spike in food and fuel prices. And because of the lack of diversification in the economy, a fall in remittances and tourism receipts, comprising approximately 3.6 and 2.4 percent of GDP respectively in 2009, would have strong adverse effects.